# GRAY ROCK RESOURCES LTD.

For the six months ended June 30, 2017 and 2016

*(Unaudited)*

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The condensed consolidated interim financial statements of Gray Rock Resources Ltd. (the "Company") are the responsibility of the Company's management. The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and reflect management's best estimates and judgment based on information currently available.

The Board of Directors is responsible for ensuring management fulfills its responsibilities, and reviews the results of the audit and reviews the condensed consolidated interim financial statements prior to their approval.

The condensed consolidated interim financial statements as at June 30, 2017 and December 31, 2016 and for the periods ended June 30, 2017 and 2016, have not been reviewed or audited by the Company's independent auditors.

| | |
|---|---|
| *"David Wolfin"* | *"Malcolm Davidson"* |
| David Wolfin<br>President & CEO<br>August 23, 2017 | Malcolm Davidson, CPA, CA<br>Chief Financial Officer<br>August 23, 2017 |

**Gray Rock Resources Ltd.**
**Condensed Consolidated Interim Statements of Financial Position**
**As at June 30, 2017 and December 31, 2016**
**Expressed in Canadian Dollars**

| | Note | June 30, 2017 (Unaudited) | December 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | | $ 171,509 | $ 51,287 |
| Deferred transaction costs and other receivables | | 9,972 | 28,422 |
| | | 181,481 | 79,709 |
| **Non-Current Assets** | | | |
| Investments | **4** | 4,136 | 3,309 |
| Exploration and evaluation assets | **5** | 1,969,036 | 300,506 |
| Reclamation deposit | **6** | 3,000 | 3,000 |
| Other assets | | 10,920 | 4,507 |
| **TOTAL ASSETS** | | $ 2,168,573 | $ 391,031 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | | $ 12,514 | $ 30,985 |
| Due to related parties | **8** | 30,485 | - |
| | | 42,999 | 30,985 |
| **Non-Current Liabilities** | | | |
| Promissory notes issued to related parties | **8** | 146,590 | 159,217 |
| Site restoration obligation | | 3,000 | 3,000 |
| **TOTAL LIABILITIES** | | 192,589 | 193,202 |
| **EQUITY** | | | |
| Share capital | **7** | 3,932,468 | 2,033,711 |
| Contributed surplus | | 672,100 | - |
| Accumulated other comprehensive income | | 3,472 | 2,644 |
| Deficit | | (2,632,056) | (1,838,526) |
| **TOTAL EQUITY** | | 1,975,984 | 197,829 |
| **TOTAL LIABILITIES AND EQUITY** | | $ 2,168,573 | $ 391,031 |

Note 1 – Nature of Operations and Going Concern

These condensed consolidated interim financial statements are authorized for issue by the Board of Directors on August 23, 2017:

“David Wolfin” **Director** “Brian Johnston” **Director**

*The accompanying notes are an integral part of the condensed consolidated interim financial statements*

**Gray Rock Resources Ltd.**
**Condensed Consolidated Interim Statements of Operations and Comprehensive Loss**
**For the three and six months ended June 30, 2017 and 2016**
**Expressed in Canadian Dollars (Unaudited)**

| | Note | Three months ended June 30, 2017 | Three months ended June 30, 2016 | Six months ended June 30, 2017 | Six months ended June 30, 2016 |
|---|---|---|---|---|---|
| **General and Administrative Expenses** | | | | | |
| Administrative fees | | $ 7,939 | $ 5,422 | $ 14,638 | $ 11,074 |
| Automobile | | 53 | 26 | 79 | 61 |
| Consulting fees | | 17,500 | - | 30,000 | - |
| Foreign exchange loss (gain) | | 20 | (236) | 133 | (21) |
| Interest and bank charges | | 104 | 26 | 216 | 90 |
| Listing and filing fees | | 8,340 | 3,198 | 12,328 | 4,498 |
| Office and miscellaneous | | 2,742 | 2,080 | 8,306 | 4,823 |
| Professional fees | | 8,567 | 5,665 | 12,105 | 8,165 |
| Share-based compensation | | 203,300 | - | 672,100 | - |
| Shareholder information | | 1,781 | 471 | 14,773 | 1,242 |
| Transfer agent fees | | 1,217 | 2,442 | 3,332 | 3,035 |
| Travel | | 4,008 | - | 8,147 | 4 |
| **Operating Loss** | | (255,571) | (19,094) | (776,157) | (32,971) |
| **Other Items** | | | | | |
| Fair value adjustment for promissory note payable | | (12,596) | - | (17,373) | - |
| **Net Loss For The Period** | | (268,167) | (19,094) | (793,530) | (32,971) |
| **Other Comprehensive Income (Loss)** | | | | | |
| Items that may be reclassified subsequently to income or loss | | | | | |
| Unrealized gain (loss) on investment securities | **4** | (1,074) | (229) | 828 | 37 |
| **Total Comprehensive Loss** | | $ (269,241) | $ (19,323) | $ (792,702) | $ (32,934) |
| **Basic and Diluted Loss per Share** | | $ (0.01) | $ (0.00) | $ (0.04) | $ (0.00) |
| **Weighted Average Number of Shares Outstanding** | | 22,085,895 | 12,539,961 | 20,370,513 | 12,539,961 |

*The accompanying notes are an integral part of the condensed consolidated interim financial statements*

**Gray Rock Resources Ltd.**
**Condensed Consolidated Interim Statements of Changes in Equity**
**For the six months ended June 30, 2017 and 2016**
**Expressed in Canadian Dollars (Unaudited)**

| | Note | Number of Common Shares | Share Capital | Contributed Surplus | Accumulated Deficit | Accumulated Other Comprehensive Income | Total Equity |
|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2016** | | **12,539,961** | **$ 1,917,584** | **$ -** | **$ (1,827,548)** | **$ 2,793** | **$ 92,829** |
| Common shares issued for cash: | | | | | | | |
| Private placement | **7(b)** | - | 50,000 | - | - | - | 50,000 |
| Net loss for the period | | - | - | - | (32,971) | - | (32,971) |
| Other comprehensive income for the period | **4** | - | - | - | - | 37 | 37 |
| **Balance, June 30, 2016** | | **12,539,961** | **$ 1,967,584** | **$ -** | **$ (1,860,519)** | **$ 2,830** | **$ 109,895** |
| **Balance, December 31, 2016** | | **16,394,961** | **$ 2,033,711** | **$ -** | **$ (1,838,526)** | **$ 2,644** | **$ 197,829** |
| Common shares issued for cash: | | | | | | | |
| Private placement | **7(b)** | 1,000,000 | 300,000 | - | - | - | 300,000 |
| Share-issuance costs | | - | (14,993) | - | - | - | (14,993) |
| Exercise of warrants | **7(b)** | 925,000 | 53,750 | - | - | - | 53,750 |
| Common shares issued for mineral property | **7(b)** | 4,000,000 | 1,560,000 | - | - | - | 1,560,000 |
| Share-based compensation | | - | - | 672,100 | - | - | 672,100 |
| Net loss for the period | | - | - | - | (793,530) | - | (793,530) |
| Other comprehensive income for the period | **4** | - | - | - | - | 828 | 828 |
| **Balance, June 30, 2017** | | **22,319,961** | **$ 3,932,468** | **$ 672,100** | **$ (2,632,056)** | **$ 3,472** | **$ 1,975,984** |

*The accompanying notes are an integral part of the condensed consolidated interim financial statements*

**Gray Rock Resources Ltd.**
**Condensed Consolidated Interim Statements of Cash Flows**
**For the six months ended June 30, 2017 and 2016**
**Expressed in Canadian Dollars (Unaudited)**

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating Activities** | | | | |
| Net Loss | $ | (793,530) | $ | (32,971) |
| Items not involving cash in the period | | | | |
| Fair value adjustment for promissory note payable | | 17,373 | | - |
| Share-based compensation | | 672,100 | | - |
| Changes in non-cash working capital items: | | | | |
| Other receivables and prepaid expenses | | 18,450 | | (3,747) |
| Trade and other payables | | (17,637) | | (6,140) |
| Due to related parties | | 29,652 | | 27,261 |
| | | (73,592) | | (15,597) |
| **Financing Activities** | | | | |
| Issuance of common shares for cash, net | | 285,007 | | 50,000 |
| Exercise of warrants | | 53,750 | | - |
| Promissory notes issued to related parties | | (30,000) | | - |
| | | 308,757 | | 50,000 |
| **Investing Activities** | | | | |
| Exploration and evaluation expenditures | | (108,530) | | (2,844) |
| Additions to website development costs | | (6,413) | | - |
| | | (114,943) | | (2,844) |
| **Increase in Cash** | | 120,222 | | 31,559 |
| **Cash, Beginning of Period** | | 51,287 | | 5,759 |
| **Cash, End of Period** | $ | 171,509 | $ | 37,318 |
| **Supplementary Disclosure of Cash Flow Information:** | | | | |
| Interest Paid | $ | - | $ | - |
| Taxes Paid | $ | - | $ | - |
| **Significant Non-Cash Transactions:** | | | | |
| Issuance of common shares for mineral property (Note 7b) | $ | 1,560,000 | $ | - |

*The accompanying notes are an integral part of the condensed consolidated interim financial statements*

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Gray Rock Resources Ltd. ("Gray Rock" or the "Company") was incorporated under the laws of the Province of British Columbia, Canada. It is in the exploration stage with regards to its business of exploration and development of mineral properties. The Company owns the Surprise Lake and Silver Stream mineral claims in British Columbia, Canada. The Company's head office and principal place of business is Suite 900, 570 Granville Street, Vancouver, BC, Canada.

Gray Rock is in the exploration stage and has not yet determined whether the property contains ore reserves which are economically recoverable. The underlying carrying value of the mineral property interest and related exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, confirmation of Gray Rock's interest in the mineral claims, the ability of Gray Rock to obtain necessary financing to complete the exploration and development, and future profitable production or proceeds from the sale of all or an interest in its mineral claims.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2017, the Company has working capital of $138,482 and accumulated losses of $2,632,056. The Company has not yet generated any revenues from its operations, and requires financing through the sale of shares or issuance of debt to continue with its operations and to develop its mineral properties. Although management intends to secure additional financing, there is no assurance that management will be successful in its efforts to secure additional financing, or that it will ever develop a self-supporting business. These factors together form a material uncertainty that raises significant doubt about the Company's ability to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## 2. BASIS OF PRESENTATION

### Statement of compliance

These unaudited condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements of the Company, except for the accounting policies, which have changed as a result of the adoption of new and revised standards and interpretations, which are effective January 1, 2017. These condensed consolidated interim financial statements do not contain all of the financial information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company's December 31, 2016 annual consolidated financial statements, which were prepared in accordance with IFRS as issued by the IASB.

### Functional Currency

The presentation and functional currency of the Company and its subsidiary is the Canadian dollar.

### Foreign Currency Translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the condensed consolidated interim statement of financial position. Non-monetary items that denominated in foreign currencies are translated at historical rates.

## 2. BASIS OF PRESENTATION (continued)

### Significant Accounting Judgments and Estimates

The preparation of these condensed consolidated interim financial statements requires management to make judgements and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgements and estimates. The condensed consolidated interim financial statements include judgements and estimates, which, by their nature, are uncertain. The impacts of such judgements and estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period, in which the estimate is revised, and may affect both current and future periods.

Significant assumptions about the future and other sources of judgements and estimates that management has made at the statement of financial position date, which could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

### Share-Based Payments

Management uses valuation techniques in measuring the fair value of share options granted. The fair value is determined using the Black Scholes option pricing model which requires management to make certain estimates, judgements, and assumptions in relation to the expected life of the share options, expected volatility, expected risk-free rate, and expected forfeiture rate. Changes to these assumptions for any share options granted could have a material impact on the Company’s condensed consolidated interim financial statements.

### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Cortez, a company incorporated on June 21, 2006 in Nevada, USA.

Inter-company balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

### Changes in accounting standards not yet effective:

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. The following accounting standards were issued but not yet effective as of June 30, 2017:

### *IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step model framework for the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its condensed consolidated interim financial statements.

**Expressed in Canadian Dollars (Unaudited)**

## 3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

***IFRS 9 – Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments ("IFRS 9") to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected-loss' impairment model, as well as a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact the final standard is expected to have on its condensed consolidated interim financial statements.

***IFRS 7 Financial Instruments – Disclosure***

IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. The standard is effective on adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its condensed consolidated interim financial statements.

***IFRS 16 – Leases***

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases and its associated interpretative guidance, and will be effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. The Company is currently evaluating the impact the final standard is expected to have on its condensed consolidated interim financial statements.

## 4. INVESTMENTS

Investments consist of the following:

| | Number of Shares | Cost | Accumulated Unrealized Gains | June 30, 2017 Fair Value | December 31, 2016 Fair Value |
|---|---|---|---|---|---|
| Levon Resources Ltd. | 6,650 | $ 126 | $ 2,135 | $ 2,261 | $ 1,929 |
| SciVac Therapeutics Inc. | 333 | 539 | 1,336 | 1,875 | 1,380 |
| | | $ 665 | $ 3,471 | $ 4,136 | $ 3,309 |

**Expressed in Canadian Dollars (Unaudited)**

## 5. EXPLORATION AND EVALUATION ASSETS

| | Silver Stream Claims | Surprise Lake Claims | Total Mineral Property Claims |
|---|---|---|---|
| **Balance, January 1, 2016** | 294,387 | - | 294,387 |
| Exploration costs incurred during the year: | | | |
| Geological consulting costs | 3,275 | - | 3,275 |
| Taxes and licensing costs | 2,844 | - | 2,844 |
| **Balance, December 31, 2016** | $ 300,506 | $ - | $ 300,506 |
| Acquisition costs | - | 1,623,497 | 1,623,497 |
| Exploration costs incurred during the period: | | | |
| Geological consulting costs | 2,343 | 42,190 | 44,533 |
| Taxes and licensing | 500 | - | 500 |
| **Balance, June 30, 2017** | $ 303,349 | $ 1,665,687 | $ 1,969,036 |

### Surprise Lake Property

On February 23, 2017, the Company announced that it had closed a definitive agreement (the "Agreement") with DeCoors Mining Corp. ("DeCoors") to acquire the Surprise Lake Property, located near Atlin, British Columbia, consisting of 33 mineral claims, and covering an area of 5,144 hectares. The Agreement also includes five other early-stage mineral exploration properties comprising a further 49 mineral claims, all located in British Columbia. In consideration of the acquisitions, the Company has issued to DeCoors for the Surprise Lake Property 4.0 million common shares and reimbursed DeCoors for its location and exploration costs on the Surprise Lake Property in the amount of $30,000. The other properties have been acquired for only nominal consideration. DeCoors will retain a 1.5% net smelter returns royalty (the "NSR") on each of the purchased properties, until the Company has paid $2.0 million under the NSR of any property placed into commercial production. Each NSR will be subject to the Company's exclusive option to purchase all or any part of the NSR at any time at the rate of $666,667 for every one-third of a NSR (i.e., 0.5% NSR), or $2.0 million in the aggregate for the total NSR.

### Silver Stream Claims

The Company has a 100% interest in two mineral claims in the Lillooet mining district of British Columbia, subject to a 3% net smelter returns royalty, known as Silver Stream 1 and Silver Stream 2 claims, collectively the Silver Stream Claims.

The Company has entered into a mining lease agreement for the Silver Stream 2 property with David R. Deering ("Deering") and Saxifrage Geological Services Ltd. ("Saxifrage"). In accordance with the terms of the agreement, Deering and Saxifrage have agreed to pay the Company an annual rental of $10,000 for a term of seven years, with the first payment due on December 12, 2015. On December 12, 2015, the parties agreed that the first annual rental payment of $10,000 would be postponed, added to the succeeding annual rentals, and paid in equal annual installments of $2,000 starting December 12, 2016. In addition, the Company granted Deering and Saxifrage an option to purchase the property for $500,000 payable at any time during the term of the agreement, subject to a 5% Net Smelter Returns Royalty on metals and a 5% Gross Overriding Royalty on any jade production. Any future royalty payments due to the Company from Deering and Saxifrage after the exercise of option shall be reduced by $500,000. On May 2, 2016, the parties further agreed that Deering and Saxifrage would perform exploration and development work of at least $12,000 in value in lieu of the $12,000 payment due on December 12, 2016.

## 6. RECLAMATION DEPOSIT

As at June 30, 2017 and December 31, 2016, the Company has hypothecated a term deposit in the amount of $3,000 as security to the Province of British Columbia for future mineral claims site reclamation costs.

## 7. SHARE CAPITAL

(a) Authorized: Unlimited common shares without par value.

(b) Issued:

During the six months ended June 30, 2017, the Company issued 925,000 common shares upon the exercise of 925,000 share purchase warrants for gross proceeds of $53,750.

In February 2017, the Company issued 4,000,000 common shares valued at $1.56 million as part of the consideration to DeCoors for the acquisition of the Surprise Lake Property.

In February 2017, the Company closed a non-brokered private placement of 1,000,000 units at a price of $0.30 per unit for gross proceeds of $300,000. Each unit consists of one common share and one half non-transferrable share purchase warrant. Each full warrant will entitle the investor to purchase one additional common share at $0.50 for a term of one year expiring on February 15, 2018.

In August 2016, the Company closed a non-brokered private placement of 1,055,000 units at a price of $0.05 per unit for gross proceeds of $52,750. Each unit consists of one common share and one non-transferrable share purchase warrant. Each warrant will entitle the investor to purchase one additional common share at $0.10 for a term of two years expiring on August 15, 2018.

In July 2016, the Company close a non-brokered private placement of 2,500,000 units at a price of $0.02 per unit with Mr. David Wolfin, the President and Chief Executive Officer and a director of the Company, for gross proceeds of $50,000. Each unit consists of one common share and one non-transferrable share purchase warrant. Each warrant will entitle the investor to purchase one additional common share at $0.05 for a term of two years expiring on July 6, 2018.

(c) Share purchase warrants

At June 30, 2017, the Company had 3,905,000 (December 31, 2016 – 4,330,000) share purchase warrants outstanding.

(d) Stock option plan

The Company established a stock option plan, under which it may grant stock options totalling in aggregate up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis, and to any one optionee in a 12 month period not to exceed 5% of the total number of shares issued and outstanding on a non-diluted basis. The stock option plan limits the options issuable within a one year period to regular employees and persons providing investor-relation or consulting services to 5% and 2% respectively of the Company's total number of issued and outstanding shares on a non-diluted basis on the date of grant.

The stock options are fully vested on the date of grant. The option price must be greater or equal to the discounted market price on the grant date, and the option expiry date can not exceed five years after the grant date.

**Expressed in Canadian Dollars (Unaudited)**

## 7. SHARE CAPITAL (continued)

(d) Stock option plan (continued)

During the six months ended June 30, 2017, the Company granted the following stock options:

| | | Stock Options Outstanding | |
|---|---|---|---|
| Expiry Date | Exercise Price | June 30, 2017 | December 31, 2016 |
| May 19, 2019 | $0.39 | 50,000 | - |
| June 26, 2019 | $0.44 | 70,000 | - |
| February 23, 2022 | $0.39 | 1,465,000 | - |
| June 23, 2022 | $0.44 | 400,000 | - |
| | | 1,985,000 | - |

Prior to February 2017, the Company had no options outstanding, and none were granted in the prior year.

## 8. RELATED PARTY BALANCES, TRANSACTIONS, AND KEY MANAGEMENT COMPENSATION

(a) Key management compensation

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the three and six months ended June 30, 2017 and 2016 are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Salaries, benefits, and consulting fees | $ 12,141 | $ 2,149 | $ 16,782 | $ 4,297 |
| Share-based payments | 160,000 | - | 488,000 | - |
| | $ 172,141 | $ 2,149 | $ 504,782 | $ 4,297 |

(b) Amounts due to related parties

In the normal course of operations the Company transacts with companies related to Gray Rock's directors or officers. All amounts payable are non-interest bearing, unsecured, and due on demand. As at June 30, 2017 and December 31, 2016, the following amounts were due to related parties:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Oniva International Services Corp. | $ 27,027 | $ - |
| Intermark Capital Corp. | 2,625 | - |
| Directors | 833 | - |
| | $ 30,485 | $ - |

(c) Promissory notes issued to related parties

As at June 30, 2017, $197,005 (December 31, 2016 - $197,005) was due to Oniva International Services Corp. ("Oniva"). The Company receives rent, office and administrative supplies, and services from Oniva, a private company related by common management.

At December 31, 2016, the Company and Oniva agreed to convert the amounts payable to a long-term promissory note payable that is non-interest bearing, unsecured, and due on demand after December 31, 2019.

**8. RELATED PARTY BALANCES, TRANSACTIONS, AND KEY MANAGEMENT COMPENSATION (continued)**

(d) Related party transactions

The fair value of the promissory note at June 30, 2017 was $146,590 (December 31, 2016 - $138,175). The Company's calculations were performed using an interest rate of 12%, compounding quarterly over the three year period. The fair value adjustment of $8,415 (2016 - $Nil) was recognized in other expenses during the six months ended June 30, 2017.

The Company entered into a loan agreement with one of its directors. At December 31, 2016, $30,000 of the loan payable was converted into a long-term promissory note payable. The note payable is non-interest bearing, unsecured, and is due on demand after December 31, 2019.

The fair value of the promissory note at June 30, 2017 was $Nil (December 31, 2016 - $21,042). During the six months ended June 30, 2017, the Company repaid the loan in full, and recognized a fair value adjustment of $8,958 (2016 - $Nil) in other expenses.

During the six months ended June 30, 2017, $34,186 (2016 - $22,487) was charged for office, occupancy, miscellaneous costs and salaries, and administrative services paid on behalf of the Company by Oniva. Further, the Company paid $867 of administrative fees (2016 - $633) to Oniva and $500 (2016 - $Nil) for reimbursement of mineral claim taxes, license fees, and staking.

The Company takes part in a cost-sharing arrangement to reimburse Oniva for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the Company, and to pay a percentage fee based on the total overhead and corporate expenses. The arrangement may be terminated with one-month notice by either party.

**9. FINANCIAL INSTRUMENTS**

The fair values of the Company's cash, loan from a related party, trade and other payables, and amounts due to related party approximate their carrying values because of the short-term nature of these instruments. The fair value of the Company's available for sale investments is detailed in Note 4.

The Company's financial instruments are exposed to certain financial risks comprising credit risk, liquidity risk and market risk.

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is exposed to credit risk. The Company manages credit risk, in respect of cash, by maintaining the majority of cash at high credit rated Canadian financial institutions.

Concentration of credit risk exists with respect to the Company's cash, as the majority of the amounts are held with a single Canadian financial institution.

**Expressed in Canadian Dollars (Unaudited)**

## 9. FINANCIAL INSTRUMENTS (continued)

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company had cash in the amount of $171,509 (December 31, 2016 - $51,287) in order to meet short-term business requirements. At June 30, 2017, the Company had current liabilities of $42,999 (December 31, 2016 – $30,985). Accounts payable have contractual maturities of approximately 30 to 90 days, or are due on demand and are subject to normal trade terms.

The maturity profiles of the Company's contractual obligations and commitments as at June 30, 2017, are summarized as follows:

| | Total | Less Than 1 Year | 1-5 years | More Than 5 Years |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 12,514 | $ 12,514 | $ - | $ - |
| Due to related parties | 227,490 | 30,485 | 197,005 | - |
| Total | $ 240,004 | $ 42,999 | $ 197,005 | $ - |

(c) Market Risk

Market risk consists of interest rate risk, foreign currency risk, and other price risk. These are discussed further below.

*Interest Rate Risk*

Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash is currently held in highly liquid short-term investments and therefore management considers the interest rate risk to be minimal.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency.

At this time, the Company is not exposed to significant foreign currency risk, as the company currently has minimal transactions and balances in currencies other than the Canadian dollars.

**Expressed in Canadian Dollars (Unaudited)**

## 9. FINANCIAL INSTRUMENTS (continued)

(c) Market Risk (continued)

*Other Price Risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk.

The Company is exposed to other price risk with respect to its investment in marketable securities, as they are carried at fair value based on quoted market prices.

(d) Classification of Financial instruments

IFRS 7 *'Financial Instruments: Disclosures'* establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as at June 30, 2017:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Cash | $ 171,509 | $ - | $ - |
| Investments | 4,136 | - | - |
| | $ 175,645 | $ - | $ - |

## 10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity. The Company is not subject to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

## 11. SUBSEQUENT EVENTS

Subsequent to June 30, 2017, the Company received regulatory acceptance to a binding option agreement with DeCoors Mining Corp. to acquire the Hot Bath Property, located near Dease Lake, BC, comprising eleven mineral claims covering a total area of 3,634 hectares.

Subsequent to June 30, 2017, the Company announced that it has arranged a non-brokered private placement of up to 1,500,000 units at a price of $0.40 per unit to raise up to $600,000 in gross Each unit will consist of one (1) common share and one half (1/2) of a non-transferrable share purchase warrant.

## 11. SUBSEQUENT EVENTS (continued)

Each whole warrant will entitle the investor to purchase one (1) additional common share for a period of one (1) year from the date of closing of the Offering (the "Closing Date"), at an exercise price of $0.60 per share.